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**SUCCESSOR COEUR D'ALENE  
CUSTODIAL AND WORK TRUST**

FINANCIAL REPORT

DECEMBER 31, 2013

**USEPA SF**



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**INDEPENDENT AUDITORS' REPORT**

To the Trustee  
Successor Coeur d'Alene Custodial and Work Trust  
Olympia, Washington

We have audited the accompanying financial statements of Successor Coeur d'Alene Custodial and Work Trust, which comprise the statements of assets, liabilities, and trust equity - modified cash basis as of December 31, 2013 and 2012, and the related statements of revenue, expenses, and changes in trust equity - modified cash basis for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and trust equity of Successor Coeur d'Alene Custodial and Work Trust as of December 31, 2013 and 2012, and its revenue, expenses and changes in trust equity for the years then ended, in accordance with the basis of accounting as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinion is not modified with respect to that matter.

*Peterson Sullivan LLP*  
May 9, 2014

**SUCCESSOR COEUR D'ALENE CUSTODIAL AND WORK TRUST**

STATEMENTS OF ASSETS, LIABILITIES, AND TRUST EQUITY –  
MODIFIED CASH BASIS

December 31, 2013 and 2012

ASSETS	2013	2012
Cash	\$ 5,831,096	\$ 4,098,361
Investments	523,333,389	485,549,662
	<u>\$ 529,164,485</u>	<u>\$ 489,648,023</u>
LIABILITIES AND TRUST EQUITY		
Trust equity	<u>\$ 529,164,485</u>	<u>\$ 489,648,023</u>

See Notes to Financial Statements

# SUCCESSOR COEUR D'ALENE CUSTODIAL AND WORK TRUST

## STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN TRUST EQUITY – MODIFIED CASH BASIS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Revenue		
Realized gain on sale of investments	\$ 38,428,680	\$ 9,551,305
Interest and dividend income	15,851,128	10,433,564
Other income	64,691	87,898
	<u>54,344,499</u>	<u>20,072,767</u>
Expenses		
Environmental remediation	12,713,746	5,809,337
Investment fees	1,496,081	1,371,358
Trustee and employee fees	368,986	313,031
Professional fees	99,574	84,732
Property insurance and taxes	70,231	27,224
Other	79,419	93,018
	<u>14,828,037</u>	<u>7,698,700</u>
<b>Change in trust equity</b>	<b>39,516,462</b>	<b>12,374,067</b>
Trust Equity, beginning of year	<u>489,648,023</u>	<u>477,273,956</u>
Trust Equity, end of year	<u>\$ 529,164,485</u>	<u>\$ 489,648,023</u>

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### **Note 1. Organization and Significant Accounting Policies**

#### **Organization**

The Successor Coeur d'Alene Custodial and Work Trust ("the Trust") was established as part of a bankruptcy proceeding involving ASARCO LLC and its subsidiaries ("ASARCO"). The Trust took effect on December 9, 2009, following a final determination by the United States District Court in Corpus Christi, Texas, which affirmed a Settlement Agreement between the United States Environmental Protection Agency ("EPA"), ASARCO, various other mining companies, and Daniel Silver, Trustee.

Under the terms of the Trust Agreement, ASARCO transferred properties and cash to the Trust, to be placed into three segregated trust accounts. The sum of the monies transferred was \$436,639,890. Each account is used for specific purposes as follows: 1) one of the accounts pays for environmental remediation projects approved by EPA; 2) one pays for environmental actions approved by EPA and prioritized by federal Natural Resource Trustees; and 3) one is used to fund environmental and administrative actions related to properties owned by the Trust.

The Trust has two offices, one in Olympia, Washington and a second in Kellogg, Idaho. The Trustee resides and works in Olympia. The Trustee has overall responsibility for all Trust activities, including investment and management of the Trust monies. The Kellogg office is responsible for selection and oversight of the remediation contractors.

The sole beneficiary of the Trust is the EPA.

#### **Modified Cash Basis Accounting**

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Under this basis, the only assets recognized are cash and investments, and no liabilities are recognized (unless caused by cash transactions). The modified cash basis differs from accounting principles generally accepted in the United States primarily because revenues and expenses are recognized when received or paid, rather than when earned or incurred.

#### **Cash**

Cash includes cash in banks. The Trust has deposits in financial institutions in excess of federally insured limits.

#### **Investments**

Investments are reported at cost in the statements of assets, liabilities, and trust equity. Realized gains and losses are included in the change in trust equity.

### **Income Taxes**

The Trust is a qualified settlement fund under Section 468B of the Internal Revenue Code. However, since the trust is beneficially owned by the EPA, it is exempt from federal income tax. Tax years that remain subject to examination by federal authorities are 2010 through 2013.

### **Use of Estimates**

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Subsequent Events**

The Trust has evaluated subsequent events through the date these financial statements were available to be issued, which is the same date as the independent auditors' report.

### **Note 2. Investments**

Investment activity for the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Balance, beginning of period (at cost)	\$ 485,549,662	\$ 475,936,037
Purchases	96,778,627	22,535,335
Proceeds on sale	(97,423,580)	(22,473,015)
Realized gain on sale of investments	38,428,680	9,551,305
Balance, end of period (at cost)	<u>\$ 523,333,389</u>	<u>\$ 485,549,662</u>

Investments held by the Trust at December 31, 2013 and 2012, were as follows:

	2013		2012	
	Cost Basis	Fair Value	Cost Basis	Fair Value
BlackRock Common Collective Trust Funds				
MSCI ACWI IMI Index Fund (Global Equities)	\$172,472,700	\$159,057,124	\$167,914,310	\$139,125,873
Core Active Bond Fund B (Global Bonds)	95,951,046	91,555,688	90,487,749	90,487,382
Global Multi-Cap Equity Fund B (Global Equities)	76,066,057	85,602,311	124,895,911	135,949,269
Global Alpha Tilts Fund B (Global Equities)	72,635,574	79,469,744		
Government Bond Index Fund B (U.S. Government Bonds)	59,685,573	57,911,572	58,514,689	59,360,935
S&P GSCI Commodities Fund B (Commodities)	24,522,443	23,546,510	21,737,007	20,659,935
BlackRock Hedge Fund Global Ascent Ltd. Class I (Global Equities)	21,999,996	20,121,441	21,999,996	19,618,226
	<u>\$ 523,333,389</u>	<u>\$ 517,264,390</u>	<u>\$ 485,549,662</u>	<u>\$ 465,201,620</u>

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels which prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

The fair value of the BlackRock common collective trust funds and the hedge fund ("the Funds") are disclosed using the Net Asset Value ("NAV") provided by the administrators of the Funds. The NAV is based on fair value of the underlying assets, less any liabilities, and then divided by the number of shares outstanding. There are no unfunded commitments. Units can only be redeemed at certain times, and with varying amounts of notice, depending on the provisions of the respective Funds' governing agreement. Due to the lack of an organized trading market and the restrictions associated with investment redemption, liquidity for these investments may be impaired under certain market conditions. All of the Trust's asset fair values as of December 31, 2013 and 2012, are derived from Level 3 inputs.

The Trust agreement places restrictions on the types of investments that may be purchased. The Trust was in compliance with these restrictions at December 31, 2013 and 2012.



### **Note 3. Environmental Remediation Costs**

Under the modified cash basis of accounting, environmental remediation costs are recorded when disbursed. Each year the Trust prepares a work-plan and budget for review and approval by the EPA. Following the EPA's approval, the Trust contracts work to be performed for the requisite environmental activities. The Trust reports quarterly to the EPA on the remediation and financial status of the Trust. No funds can be distributed from the Trust without the explicit written approval of the trustee.